

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**CORRECTED  
FISCAL NOTE**

**HB 3067 – SB 3764**

March 26, 2010

**SUMMARY OF BILL:** Requires reimbursement of public assistance from lottery winnings \$600 or greater, when such public assistance was granted from the Department of Human Services (DHS) or the Bureau of TennCare.

**ESTIMATED FISCAL IMPACT:**

On February 4, 2010, a fiscal note was issued for this bill indicating the following estimated fiscal impact:

*Other Fiscal Impact – Decrease net lottery proceeds earmarked for scholarships and grants by an amount estimated to exceed \$6,162,400 per year. In addition, there would be a decrease of funding allocated to after-school programs estimated to exceed \$296,300 per year.*

Based on additional information received from various sources, the estimated fiscal impact for the bill has been corrected as follows:

**(CORRECTED)**

**Increase State Revenue – Up to \$36,400**

**Other Fiscal Impact – Decrease net lottery proceeds earmarked for scholarships and grants by an amount estimated to exceed \$6,162,400 per year. In addition, there would be a decrease of funding allocated to after-school programs estimated to exceed \$296,300 per year.**

**Assumptions:**

- The Tennessee Education Lottery Corporation (TELC) does not collect income or demographic data that identifies prize winners as recipients of public assistance.
- As individuals who receive public assistance become aware that prizes equal to \$600 or more will go towards repaying amounts previously received as public assistance, a significant decrease in lottery ticket sales would occur.

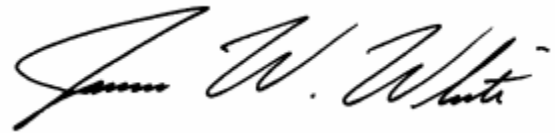
**HB 3067 – SB 3764 (CORRECTED)**

- Based on information received from DHS in 2009, the number of individuals receiving food stamps was 589,610.
- Fifty percent of individuals receiving food stamps (294,805) purchase lottery tickets on a regular basis; fifty percent do not purchase tickets.
- Fifty percent of individuals who receive food stamps and purchase lottery tickets (147,403) stop purchasing lottery tickets as a result of this bill; the remaining 50 percent continue purchasing lottery tickets.
- According to the U.S. Census Bureau, the population of Tennessee for 2009 was 6,296,254.
- The number of individuals projected to stop playing the lottery represents approximately 2.34 percent of the state's total population ( $147,403 / 6,296,254 = 2.34\%$ ). Therefore, net lottery ticket sales are expected to decrease by at least 2.34 percent per year.
- The mid-point of the range adopted by the State Funding Board for net lottery proceeds for FY10-11 is \$263,350,000.
- Approximately 26 percent of net lottery ticket sales are returned to the state as net lottery proceeds.
- Net lottery ticket sales for FY10-11 are estimated to be \$1,012,884,600 ( $\$263,350,000 / 26.0\% = \$1,012,884,615$ ).
- The decrease of net lottery ticket sales for FY10-11 is estimated to be \$23,701,500 ( $\$1,012,884,600 \times 2.34\% = \$23,701,500$ ).
- The decrease of net lottery proceeds for FY10-11 is estimated to exceed \$6,162,400 per year ( $\$23,701,500 \times 26\% = \$6,162,390$ ). This amount is expected to grow annually as a result of individuals receiving public assistance being denied prize winnings \$600 or greater.
- Prize expense accounts for approximately 62.5 percent of all net ticket sales; two percent of prizes go unclaimed; One hundred percent of unclaimed prize money goes to after-school programs. Therefore, a decrease of revenue allocated to after-school programs estimated to exceed \$296,300 per year ( $\$23,701,500 \times 62.5\% \times 2.0\% = \$296,269$ ). This amount is expected to grow annually as a result of individuals receiving public assistance being denied prize winnings \$600 or greater.
- Based on information provided by the New York Lottery (NYL), a state that implemented similar legislation in 1995, it is expected that Tennessee would recover some public assistance funding as a result of this bill.
- Based on information provided by the NYL, it is estimated that NY has recovered about \$2,500,000 in public assistance benefits since 1995. Therefore, the state of New York has recovered (on average) about \$166,700 per year in public assistance funding via garnishment of lottery winnings since 1995.
- The NYL has averaged about \$2.9 billion in prize payouts from 1995 to 2008. Therefore, the NYL has recovered about 0.005748 percent of prize winnings each year ( $\$166,700 / \$2.9 \text{ billion}$ ).
- The Tennessee Education Lottery Corporation (TELC) paid out approximately \$633,300,000 in prize winnings during FY08-09. Given the rate of recovery for the state of New York, Tennessee could recover as much as \$36,400 per year via garnishing lottery winnings ( $\$633,300,000 \text{ prize winnings} \times 0.005748\% = \$36,402$ ).

- As prize winnings increase in the future, it would appear that the state could recover additional funding in subsequent years. However, as lottery players learn and experience that lottery winnings could be garnished for public assistance benefits received, winners will increasingly engage in discounting, a method where winners sell lottery tickets at a discount to other individuals to claim the prize. In these cases, there will be no recovery of public assistance benefits. Most likely, these two impacts will offset one another in future years, and the state will recover no additional funding beyond \$36,400 in subsequent years. As a result, the increase to state revenue is estimated to be up to \$36,400 per year.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

/rnc